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Arizona Corporate Commission
1200 W. Washington Street
Phoenix, AZ 85007

AZ CORP COMMISSION
DOCKET CONTROL

W-01865A-07-0384

Subject: Docket Number: W-01865A-07-0385 -- Rate Increase Request
Groom Creek Water Users Association

Dear Members,

My wife and I have lived in Groom Creek for the last seven years. We currently reside at 1138 E. Walton and are remodeling our future home located at 1072 E. Marapai Road -- both properties are supplied water by the Water Users Association.

We have attended both hearings conducted at the ACC offices in addition to all of the Groom Creek Water Users Association public meetings held on the captioned subject. We have also written you indicating our strong support for the proposed rate increase and its' attendant improvements to our water system.

The reason for this letter is to express our concern for the misstatements and untruths being circulated by some of the former Water Users board members. These individuals were voted out of their positions two plus years ago by a majority of the Groom Creek water user members.

We believe the attached "Water Project Upgrade Fact Sheet" dated August 11, 2008 presents a fair and true overview of the issues surrounding the subject. We respectfully ask that you review this document as you consider the water rate increase request and the needed improvements to our water system.

Thank you for your consideration.

Sincerely,

Ernest and Linda Alldredge
1138 E. Walton
Prescott, AZ 86303
602-722-6323

Arizona Corporation Commission
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Water Project Upgrade Fact Sheet

August 11, 2008

Your Board of Directors has over the past year and up to the present time tried to keep all members informed about the system upgrades and associated water rate increases required to finance the improvements. Contrary to what some people have said, we have tried to communicate to you the most accurate information we have on the project. Some objectives have changed during the year which has had an impact on the project direction and the potential rate increases. A number of letters with misstatements have been written to the Arizona Corporation Commission and to the Board. We will try and answer some of the questions raised by certain members of the association. The Board has never given out any misinformation in any documentation here or elsewhere. Some residents have their own agenda and may not wish to hear what we tell them. The Board has done their very best to be open and honest with you since the day this board took over running the association.

Q. What made the board decide that the water distribution system needed to be replaced?

A. This project became a top priority in April, 2007 when the board was told by Yavapai County that our roads were going to be paved. Breaks had already occurred in the system over the past few years and the piping materials in the ground were 38 to over 50 years old. Isolation valves cannot be located, service lines are rusted, shut off valves are frozen in place, natural gas valves are being used as water valves, and the transite pipe material is a health hazard. There have been stress corrosion cracks that will only get worse with time. If we wait to fix the system after the paving, the cost would be \$ 4 to \$ 6 million dollars. In addition, as the result of testimony given during the Corporation Commission hearings, the ACC Staff concluded that the system had to be replaced now regardless of whether Yavapai County paved the roads or not.

Q. Why is the Board pushing for higher water rates?

A. The Board is not pushing for high water rates. It is requesting rates that will allow this project to go forward. The water rates are being set by the finance programs that are available to the association. In our case it is 4.9% interest over 20 years, but this could change in the future possibly allowing for a somewhat reduced rate if WIFA grants us a disadvantaged rate and longer term as discussed at the July 12 meeting.

Q. Why is the ACC raising the water rates higher than what the Board asked for?

A. Originally in 2007 the Board was looking at a \$ 500,000.00 finance package to replace the water mains. This cost was based on an estimate provided at that time by a Prescott contractor that did not include all the anticipated service lines and pump costs. Early negotiations with the ACC were also based on this plan. In April 2008, the preliminary cost estimate was finally available from the Engineering study. The Corporation Commission engineering staff and the Board realized that this project had to go forward as one project. A water rate had to be determined that would finance the entire project as well as provide income for the association to operate. The ACC staff determined that a \$ 50.00 base rate and the associated commodity rates are required. Hence, higher rates than the Board's requested rates were recommended by the ACC.

Q. Why is this not being voted on by the whole community?

A. Time does not permit us to caucus the entire community. You have elected a Board of Directors and they are empowered to act on your behalf. Any member can attend the by-monthly board meetings and ask questions, express their opinions etc. The community

also has had input with the ACC by calling and writing letters which a small vocal minority has done. Unfortunately, misstatements have been made in those letters which has prompted this fact sheet to make sure everyone in the community understands what the board's position is on this project.

- Q. Why can't this project be done over a longer period of time so it will not cost as much money?**
- A.** The Yavapai County road paving schedule precluded this project be done over a long period of time. The project can not be done piecemeal as higher pressure in the new system can possibly blow out piping in the older parts of the system. The present transite pipe in use is a Mexican metric sized pipe that does not match U.S. standard pipe sizes and creates a mismatched joint every place you connect to it leading to potential leaks. Contractors will not warrantee a new and old piping design.
- Q. Why are you replacing all the water meters when you are just going to turn around and do it again when the new water distribution system is put in?**
- A.** All recently installed meters will not be replaced again. They will be used in the new system but placed in a new meter cradle for future ease of replacement. Only old malfunctioning meters found during new construction will be replaced at that time.
- Q. Why can't you use the pipes that had been replaced in the 1980's during breaks, and just add on rather than replacing the whole system?**
- A.** The pipe replaced in the 1980's is still 25 to 30 years old. There is no written documentation to indicate where these pipe sections are located. Those areas replaced are believed to be a very minor portion of the overall system. No significant savings will be realized and warranty issues will be raised.
- Q. What is transite pipe, and why can't we continue to use it in order to save money?**
- A.** Transite pipe is asbestos impregnated with cement and was in general use back in the 1950's and 1960's. It is no longer manufactured and is, in fact, illegal to use in some areas due to it's asbestos content. Handling this piping requires special procedures and broken pipes can release asbestos fibers into the water system.
- Q. What would happen if we do nothing?**
- A.** The integrity of the system will continue to deteriorate. The frequency of water main breaks will increase. The cost of repairs will escalate exponentially particularly after the roads are paved. Water rates will increase to provide maintenance until the system becomes inoperable some time in the future. When this happens, the county will probably take over the system because the residents will not be able to provide funding to replace the system at that point due to the expense. If the county takes over the water company, it will raise taxes and /or assess homeowners to pay for the cost of operation. If the water system ceases to operate, real estate values will plummet in the area.
- Q. Why does this have to be done now?**
- A.** The road paving project requires it to be done now. The Corporation Commission also has determined the system must be replaced now regardless of the road paving project due to its many deficiencies.

Q. How is this project going to be financed?

- A. The project will be financed through a Water Infrastructure Finance Authority (WIFA) loan. At the present time this will be a 4.9%, 20 year loan.

Q. Will the Board ask for lower rates from the ACC once the project gets started?

- A. Depending on the final finance and operating costs, the Board may apply for lower rates. This could occur in the future after construction is completed and a determination that rates could be reduced.

Q. Why did Silver King Circle cost so much to fix?

- A. Silver King Circle was not an easy repair. The crack in the transite pipe kept extending along the pipe for close to 32 feet before it could be stopped. The road surface was asphalt and had to be repaired to county standards after the pipe was replaced. A previous break repaired on Silver King Circle in 2005 cost within \$ 400.00 of this repair. Both repairs were completed by the same contractor!!

Q. Are we really close to bankruptcy and how will having higher water rates help the situation?

- A. An analysis of the association finances since 2000 revealed an average negative cash flow of around \$ 2,000.00 per year. No attempt was made to correct this situation by any association Board until now. The rate increase is designed to cover the additional finance cost as well as increase the cash flow to the association to cover current and anticipated future expenses. Without a rate increase the association would eventually be bankrupt. Even without the pipe project a rate increase is required to continue operation.

Q. What is the present status of the rate request with the ACC?

- A. The rate hearing was completed on July 21st. The administrative judge has issued a procedural order for the staff report to be amended to include the proposed rates for either a \$ 1.6 or a \$1.8 million finance cost. The \$ 1.8 million option would include a fire safety option. This amended report will be issued by August 15, 2008 with the Board's evaluation reported back by August 29, 2008. Then it will go before the Corporation Commissioners to make the decision.

Summary

Letters and e-mails have been sent to Board members and the ACC that have had gross mis-statements and errors made by some association members. Some of the statements have been outrageous and not based on facts. The number one complaint has been the magnitude of the rate increase, and you do have justification for complaining. However, the real problem is that this association has operated for 24 years without a base rate increase. Had there been two or three increases over the years with funds being set aside for future system improvements, we would be facing a much smaller rate increase now as some portion of the funds would have already been in the bank to help pay for the needed upgrades. We believe that the previous boards lacked the foresight and were not diligent in planning for the time when the water system got old and needed to be replaced is why we are in the position we are in now. The current board is being proactive and taking the necessary action to protect the future and value of Groom Creek for years to come. Part time residents, not just full time residents, will share the burden of the cost of the upgrade.